



ICGN

International Corporate Governance Network

By email: t-nagaoka@fsa.go.jp
makoto.sonoda@fsa.go.jp

Chairman Masamichi Kono
IFRS Monitoring Board

Takashi Nagaoka
Director for International Accounting
Financial Services Agency of Japan

Makoto Sonoda
Deputy Director, Corporate Accounting and
Disclosure Division
Financial Services Agency of Japan

13 April 2011

Dear Chairman Kono, Mr. Nagaoka and Mr. Sonoda,

Re: IFRS Monitoring Board – Consultative Report on the Review of the IFRS Foundation’s Governance

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of over 500 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of U.S.\$12 trillion.

The ICGN’s mission is to raise standards of corporate governance worldwide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through its Committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: www.icgn.org.

The purpose of the Accounting and Auditing Practices Committee (A&A Practices Committee) is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world.
http://www.icgn.org/policy_committees/accounting-and-auditing-practices-committee/

We appreciate the invitation to participate in the Americas roundtable at Stanford on the 28 March. We found the roundtable very informative and appreciate the opportunity to share ICGN’s viewpoints. Also, thank you for the opportunity to provide our written comments on the International Financial Reporting Standards (IFRS) Monitoring Board’s Consultative Report on the Review of the IFRS Foundation’s Governance. We recently provided comment on the Consultation input on the strategy of the IFRS Foundation and continue to support the Trustees’ comprehensive review of the organisation’s strategy. We believe since the strategy review and this governance review are related and directly affect one another that they be undertaken in parallel to ensure a prolific outcome.

ICGN continues to support the establishment of a single set of independently developed, high quality international accounting standards, which primarily serves the needs of current investors in their decisions as capital providers and secondarily, potential investors and other users. We believe this goal is the foundation to the overall governance structure of the IASB, IFRS Foundation and the IFRS Monitoring Board. We agree that critical elements of accountability and independence should be emphasized and are essential to the success of the three tiered structure as proposed. ICGN recommends that transparency should be included as another critical element to ensure successful implementation of this governance review. We believe all three organizations should establish more transparency within each of their governance processes and functions to assist in establishing the legitimacy and effectiveness of their roles.

ICGN feels strongly the Monitoring Board should stay with its current role of monitoring the processes and not expand its role. Charter and processes should be defined. We support the defined role of the IFRS Foundation Trustees as outlined in the revised constitution.

ICGN recommends that all meetings of the IASB, IFRS Foundation and IFRS Monitoring Board be held in public forums allowing observers input and discussion.

Summary of views:

1. The IASB's main objective is to develop high quality accounting standards with the goal of establishing a single set of independently developed international standards which can be applied consistently.
2. Sustainable funding needs to be established by the IFRS Foundation to ensure the independence of the IASB and to ensure the Trustees are not beholden to any of the accounting firms.
3. The IASB membership should firstly build on the skill-sets of each of members and in holding to the mission of the IASB. Diversity through depth of experience, expertise and professional backgrounds should be ensured at the IASB level. Investors should be more strongly represented on the IASB and the IFRS Foundation than is currently the case.
4. The governance structure and mission of the IASB, IFRS Foundation and the IFRS Monitoring board should be further developed, vetted and shared publicly to increase the understanding of each function's roles.
5. It is important that the oversight processes remain independent of the technical role of setting accounting standards. Roles should be clearly articulated and defined in the entity's constitution and or charter. The IASB remain as the independent accounting standard setter. The IFRS Foundation should be responsible for ensuring the independence of the IASB, the appropriate funding and appointment of the IASB Board members. The IFRS Monitoring Board should provide oversight of the Trustees and their processes.
6. It is critical that additional transparency be introduced into the protocol of the three tiered groups. Meetings should be open to the public allowing observers an opportunity to provide comment.

7. Accounting and assurance requirements are interlinked and consideration should be given to focus efforts on consistent and meaningful global enforcement.
8. There is a need for greater clarity around the core mission of each of the three functions.
9. Majority vote should replace the consensus decision process at the IFRS Monitoring Board as long as the decision process is clearly transparent and attribution to each Monitoring Board's member's vote is documented and publicly shared.

Specifically, responses to the questions are in the following addendum.

If you would like to discuss any of these points, please do not hesitate to contact Carl Rosen, our Executive Director, at +44 (0)207 612 7098 or secretariat@icgn.org. Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,



Christianna Wood
Chairman of the ICGN Board of
Governors



Lou Moret,
Co-Chair, ICGN Accounting and
Auditing Practices Committee

Cc: ICGN Board Members
ICGN A&A Practices Committee

Addendum:

IASB:

(1) Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

Question 1:

- Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.

ICGN feels strongly that the priority of the pool of candidates for the IASB membership should firstly be build on the skill-sets of each of the members and in holding to the mission of the IASB. We agree that diversity brings a special attribution to the mix of each of the Board members and agree that professional backgrounds may be important. ICGN feels it is important to appoint investors to the IASB to help achieve whom financial reporting is meant for – investors, capital providers of each of the public companies.

We do not necessarily feel that members of the standard setter should be based on geographical diversity as the role of a standard setter is to establish high quality accounting standards. We realise the need for countries to determine whether IFRS meets their country needs but that is in the decision of adoption and not in setting standards. Also, IFRS branding is important to the concept of consistency and comparability which is important to decision making usefulness.

(2) Separate the roles of the International Accounting Standards Board Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation's functions, including IASB oversight.

Question 2:

- Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/ disagreement.

After attending the America's roundtable, we understand now that the IASB Chair position is the CEO of the IFRS Foundation but not the Chair of the IFRS Foundation. We likened this to the CEO of a company and their role as a director but not necessarily the Chair. However, we believe the Chair of the IASB should be able to facilitate the business requirements of the IASB through public meetings and processes. The role and job requirements for each of these roles – Chair of the IASB and CEO of the IFRS Foundation require full time commitments and should not be the same person. This separation will also facilitate any perceived conflict of interest as well. ICGN's Global Accountable Principles supports the role of a Chair as most effectively carried out where the chair of the board is neither the CEO nor a former CEO.

(3) Consider clearer division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's administrative and oversight functions.

Question 3:

- Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions should be considered, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.

We agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions be maintained. We believe this division will help ensure the integrity of each of their roles.

Also, the IFRS Foundation may consider physically moving to a different location to further distinguish distinct boundaries between the IASB and the IFRS Foundation.

Trustees:

(1) Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

Question 4:

- Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.

ICGN supports the composition of the Trustees to be a diverse group with diverse perspectives, depth of experience with diverse contacts to fulfill their role. ICGN understands the main role of the IFRS Trustees is to (1) ensure the independence of the IASB, (2) ensure no undue influence on the IASB (3) assume responsibility for establishing and maintaining appropriate financing arrangements, (4) provide geographical perspectives and commitment to use of IFRS and (5) oversee the processes and governance of the IASB, not standard setting. ICGN recommends that formal procedures and clearer criteria be developed to provide fuller transparency on the appointment of Trustees. ICGN also believes the composition of Trustees should include representation by investors to be included as part of the criteria established.

(2) Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

Question 5:

- Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/ disagreement. To what extent should the Monitoring Board be involved in the nomination process?
- Do you agree that further clarification of criteria for the Trustees' candidacy would help support confidence of the stakeholders? Please provide reasons for your agreement/disagreement.

We believe that further clarification of criteria for the appointment process and selection of individuals is fully developed and prominently included in the IFRS Monitoring Board's Nomination and Governance Principles. We do believe the appointment process needs better transparency to ensure the credibility of the

process. ICGN believes this further clarification of criteria will enhance the confidence of stakeholders as boundaries are defined. We strongly believe that investors need to be represented within each of the three tiers.

Monitoring Board:

(1) Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be considered in selecting members.

(Note: Figures in square brackets are indicative.)

Question 6:

- Should the membership of the Monitoring Board continue to be confined to capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions?

- Do you agree with the proposal to expand the Monitoring Board's membership by adding a mix of permanent members ([four]) representing primarily major emerging markets and rotating members ([two]) from all other markets? Please provide reasons for your agreement/disagreement. How should the major markets be selected? Should a jurisdiction's application of IFRSs and financial contribution to standard-setting play a role?

- Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.

ICGN supports the expansion of the Monitoring Board by adding four capital markets authorities primarily representing major emerging markets. ICGN is unsure what the appropriate number should be for additional expansion down the road. We believe the roles need to be clearly defined so that if Trustees are responsible for geographical representation for the use of IFRS then it may be important for the Monitoring Board to understand the enforcement ability of each security regulator to ensure proper oversight. Again, if the Monitoring Board is expanded outside of capital markets regulatory authorities then investors need to be represented.

To ensure proper refresh and introduction of diverse perspective the IFRS Monitoring Board's Charter should clearly establish the length of tenure for each member and state the period in which this is renewable.

ICGN supports that members of IOSCO be considered for rotating membership as the mission of IOSCO is supportive of the characteristics that would be important to investors in the Monitoring Board. The mission of the IOSCO is:

- to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

(2) Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

Question 7:

- Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.

ICGN's is unclear of the benefits of a consensus based decision making system and would recommend the use of majority voting. ICGN understands that consensus might facilitate more dialogue and acceptance by the full Monitoring Board but we are concerned with the effort and time required to establish a consensus. We understand that some may feel that majority voting would introduce a fractured disgruntled minority but believe the benefits of voting and clearly providing attribution to each Monitoring Board's member's vote would outweigh this concern.

(3) With a view to increasing the involvement of other public authorities and international organizations, consider either:

- extending the observer status to groups of prudential authorities and international organizations;
- holding more formalized dialogue with public authorities and international organizations; or
- establishing an advisory body composed of prudential authorities and international organisations.

Question 8:

- To ensure increased involvement of public authorities and other international organizations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalized dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?

ICGN believes if all Monitoring Board meetings except for sensitive appointment meetings should be held in a public forum and web cast to provide other observers to participate. We believe if this is the established forum that there will not be a need to expand or have official status of observers. We agree that if the Monitoring Board feels the need to establish an advisory body that representation by investors is critical.

(4) Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members' views to the media and wider audiences.

Question 10:

- What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?

(5) Consider if the Monitoring Board's current ability to refer matters to the IASB for

consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

ICGN believes the Monitoring Board's governance and checks and balances to political intervention should be carefully guarded. The Monitoring Board may suggest an agenda item to the IASB but it needs to be understood that this suggestion is not mandatory. The decisions of the IASB, including establishment of the priorities of the IASB should be established solely by the IASB through consultation and recommendations by its constituencies.

Consider if the Monitoring Board's current ability to refer matters to the IASB for consideration requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

Question 11:

- Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.

ICGN does not believe that the Monitoring Board should have an explicit ability to place an item on the agenda as this explicit ability may inherently introduce pressure and bias by the Monitoring Board. The IFRS Monitoring Board, as other constituents should be able to provide recommendations, knowing that the IASB determines the standard setting agenda.

(6) Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

Question 12:

- Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?

ICGN understands that it is the role of the Trustees of the IFRS Foundation to develop and establish a stable and independent funding model. It is not the role of the Monitoring Board to establish funding sources. Importantly, the Monitoring Board is for oversight and to assist the Trustees in accomplishing their goals. We believe it critically important that these roles be clearly defined and maintained.

(7) Enhance the Monitoring Board's involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

Question 13:

- Do you believe that the Monitoring Board should have a more prominent role in the selection of the IASB Chair? Do you agree with the proposal that the role include involvement in establishing a set of publicly disclosed criteria for the Chair, and assessment of a short list of candidates against those criteria? Please provide reasons.

- Do you believe that the Monitoring Board should be given any further, specific role in the selection of the IASB Chair? In particular, should the Monitoring Board approve the Trustees' final selection? Please provide reasons

ICGN does not support the Monitoring Board becoming involved in consulting the Trustees on the final decision of the IASB Chair. The Monitoring Board should assist in developing the criteria but should not become involved in ranking potential candidates. Distinct role lines should be drawn so the Monitoring Board fulfills the role of ensuring the nomination and selection process is adequate, efficient and followed but should not cross over to actual selection. The Trustees are responsible for this role.

We do not feel the Monitoring Board be provided veto power over the Trustees' final selection of the IASB Chair.

(8) As regards other IASB members, explicitly include in the Monitoring Board's responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

Question 14:

- Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/disagreement.

ICGN believes it is the role of the Trustees to nominate and select IASB members. It is important that the IFRS Monitoring Board assist in the selection criteria and appropriate skill-sets based on continuing members.

(9) Explore the possibility of establishing a permanent secretariat for the Monitoring Board.

Question 15:

- Do you agree with the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing roles in overseeing the governance of the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.

ICGN supports establishing a permanent secretariat for the Monitoring Board as the expanded membership introduces more complexity and issues for the Board.

Other questions

Question 9:

- Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.

ICGN believes investor representation should be included at the IASB and Trustee levels, as well as the Monitoring Board if membership is expanded outside the capital markets regulatory authorities. We also believe that the IASB's, IFRS Foundation Trustees', the IFRS Monitoring Board's meetings be held in a public forum.

Question 16:

- Do you agree with the need for regular reviews, and the interval of five years as a benchmark? Should the reviews be aligned with the timing of the Foundation's mandated Constitution reviews? Please provide reasons for your agreement/disagreement.

We believe regular reviews should occur at every third year with the adoption of both a 3 year and 5 year strategy – business plan. We believe both should be vetted allowing public commentary.

Question 17:

- Do you have any other comments?

None at this time.